

## Message Text

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ACTION SS-25

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R 220608Z JUL 75

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 6036

INFO USLO PEKING

C O N F I D E N T I A L HONG KONG 8333

STADIS////////////////////////////////

EXDIS

E.O. 11652: GDS

TAGS: ENRG CH US HK

SUBJ: PROPOSED FLUOR REFINERY COMPLEX

REF: STATE 157651

1. I AM USING THIS DISTRIBUTION CATEGORY BECAUSE A LEAK AT THIS TIME WOULD BE DISASTROUS. PRC ELEMENTS HAVE INDICATED THAT CONFIDENTIALITY OF THEIR DISCUSSIONS WOULD BE ABSOLUTE CONDITION FOR GOING AHEAD WITH THE PROJECT.

2. HOOSE CAME IN TWICE LAST WEEK TO FILL ME IN ON THE FLOUR REFINERY COMPLEX. THE WHOLE CONCEPT HAS AN AIR OF UNREALITY TO ME ANYWAY, BUT HIS CONSPIRATORIAL EXCITED MANNER OF PRESENTING EVEN THE SIMPLIST MATTER GAVE ME SOME REAL DIFFICULTY IN SORTING OUT FACT FROM FANCY, HOOSE HOPES FROM FLOUR DECISIONS AND PRC AGREEMENTS FROM LOCAL FRONT MEN SALES PITCHES, HOWEVER, I THINK STATE OF PLAY IS ROUGHLY AS FOLLOWS.

3. FLUOR GROUP HAS HAD EXHAUSTIVE DISCUSSION WITH CHINESE (CHINA RESOURCES OFFICERS AND LOCAL FRONT TYPES) OVER PAST TWO MONTHS OR MORE. DISCUSSIONS REALLY CONSISTED OF DETAILED QUESTIONS FROM CHINESE SIDE ON VARIOUS ASPECTS OF PROJECT SUCH AS FEED STOCK, FIANCING ,ETC, AND COMPREHENSIVE ANSWERS BY AMERICANS SEVERAL DAYS LATER. FLOUR HAS ALREADY SUPPLIED ELEVEN VOLUMES OF REQUESTED ATA AND EXPLANATIONS. FLOUR GROUP IS NOW BACK IN THE US LEAVING KALKHURST AS  
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MESSAGE DROP, BUT WILL RETURN AROUND AUGUST 15 AT CHINESE REQUEST

FOR FINAL DISCUSSIONS AND DECISIONS. THERE WOULD CONCLUDE IN LATE NOVEMBER AT LATEST (SEPT. ON THIS ASPECT).

4. CHINESE HAVE GIVEN HOOSE IMPRESSION THAT APPROVAL IN PRINCIPLE HAS BEEN OBTAINED AT HIGHEST LEVEL IN PRC. MINISTER OF DEFENSE YEH CHIEN-YING HAS EVIDENTLY BEEN ESTABLISHED AS BEING PERSONALLY INVOLVED BECAUSE OF THE ARMED FORCES INTEREST IN OIL PRODUCTION, PIPELINE CONSTRUCTION, AND OTHER MILITARY INDUSTRIAL ASPECTS. (YEH IS ALSO FROM KUANGTUNG, ALTHOUGH HOOSE DID NOT KNOW THIS.) TENG HSIAO -PING AND CHOU EN-LAI WERE ALSO SAID TO HAVE BEEN FULLY INFORMED AND HAD GIVEN THE GO-AHEAD. COMMENT: WHETHER OR NOT CHINESE ARE AS FAR ALONG AS HOOSE HOPES, IT IS CLEAR THAT THESE LEADERS WOULD BE INVOLVED IN ANY LONG-RANG PROJECT OF SUCH MAGNITUDE AND WITH SUCH FOREIGN POLICY IMPLICATIONS.

5. LOCAL CHINESE HAVE SLID INTO SECOND PLACE IN THE NEGOTIATIONS AND THEIR STATUS AS MERE FRONT MEN HAS BECOME QUITE OBVIOUS, AT LEAST TO HOOSE. NEVERTHELESS, THE APPEARANCE OF A US/HONG KONG/CHINESE JOINT ENTERPRISE WILL BE PRESERVED AND THE LATTER ARE DOING MOST OF THE RUNNING BACK AND FORTH TO PEKING. FLOUR FOUND IT SOMEWHAT FRUSTRATING TO BE DEALING WITH SINGLE GROUP OF CHINESE WHO CLAIMED TO BE TWO SEPARATE ENTITIES BECAUSE EVERYTHING HAD TO BE GONE OVER TWICE AS THE PRC CROSS-CHECKED THEIR HONG KONG COMPATRIOTS ON ALMOST EVERY DETAIL.

6. BASIC OUTLINES OF FINANCIAL PACKAGE HAVE BEEN WORKED OUT. IN THE FIRST PLACE, THERE WILL BE A CONTRACT BETWEEN THE PRC AND THE FOK GROUP (PRC FRONT) IN GUARANTEEING THE ENTIRE SUPPLY OF CRUDE FOR THE REFINERY FOR 12 YEARS. SECOND, THE PRC WILL AGREE TO TAKE A CERTAIN PERCENTAGE OF THE OFF-TAKE AND THIRD, 10-15PERCENT OF THE PRODUCT WILL BE COMMITTED TO SERVICING THE LOANS . STAGGERING SUMS ARE ALLEGEDLY INVOLVED: US DOLLAR 7 BILLION IF THE ENTIRE COMPLEX CONTRACTED FOR AND BUILT, AND US DOLLARS 4AND A HALF BILLION FOR FIRST PART IF IT WERE DONE PIECE-MEAL.

(THESE SEEM SO BIG THAT I THOUGHT AT FIRST HOOSE WAS TALKING IN TERM OF HK DOLLARS WHICH WOULD BE IMMENSE EVEN SO, BUT HE SAID NO). IF CONSTRUCTED ON A CRASH BASIS, THE 4AND A HALF  
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BILLION DOLLAR JOB COULD BE COMPLETED IN 3 YEARS. OTHERWISE 5 AND A HALF YEARS AT A MORE LEISURELY PACE.

7. IF IT IS BUILT, COMPLEX WILL BE ON DEEP BAY IN NORTHWEST PART OF THE COLONY BORDERING ON CHINA, INSTEAD OF LANTAO. BRITS HAVE GIVEN PRELIMINARY APPROVAL AND ARE RESERVING THE SITE UNTIL THE END OF THE YEAR. THE GOVERNOR, COLONIAL SECRETARY, AND SECRETARY FOR ENVIRONMENT HAVE BEEN INFORMED. MY OWN INTER-

VENTION WITH THE GOVERNOR WILL BE REQUESTED IN DUE CORSE  
AND ALTHOUGH I AM NOT SURE WHAT THIS MIGHT INVOLVE, I SAID  
I WOULD BE GLAD TO HELP AT THE "PROPER TIME AND IN AN  
APPROPRIATE WAY". PRESUMABLY, GOVERNOR WILL WANT SOME  
INDICATION THAT USG FAVORS OR AT LEAST DOES NOT OPPOSE  
PROJECT, WHICH I GATHER IS THE CASE.

8. HOOSE WILL BE IN WASHINGTON END OF THIS WEEK OR EARLY  
NEXT WEEK AND WILL CALL ON PHIL LINCOLN OF PRCM. HE MAY  
WISH TO ENSURE THAT NO TECHNOLOGICAL TRANSFER PROBME WILL  
ARISE. FLUOR HAS TUDIOUSLY AVOIDED RAISNING THIS ASPECT  
WITH PRC AND I ADVISE HOOSE THAT IF FLUOR HAD ANY DOUBTS  
THEY SHOULD RESOLVE THEM IN ADVANCE.  
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